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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 001095

SIPDIS

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DEPT PLEASE PASS TO USAID EGAT FOR WALTER HALL  
DOE FOR CHARLES WASHINGTON

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TAGS: [ENRG](#) [ECON](#) [EPET](#) [AM](#) [IR](#) [RU](#)

SUBJECT: ARMENIA CHOOSING BETWEEN IRANIAN AND RUSSIAN ROLE  
IN NEW PIPELINE

REF: A. 04 YEREVAN 2019 B. YEREVAN 391

Classified By: DCM A.F. Godfrey for reasons 1.4 (b, d)

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SUMMARY  
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1. (C) As work begins on the first 42 km segment of the Iran-Armenia gas pipeline, Armenia is engaged in shuttle negotiations with both the Russian and Iranian governments about financing and, ultimately, control of the onward portions of the gas pipeline through Armenian territory. Deputy Minister of Energy, Areg Galstyan, told us on June 21 that an Armenian delegation had just returned from Iran and that a soft deal has been drawn up, but further negotiation is on hold pending a possible shuffle of positions following elections in Iran. Galstyan added that the GOAM is also negotiating with Russian Gazprom, although Gazprom has yet to give Armenia a deal they can live with. Looking forward, Galstyan suggested that the Ministry expects to depend on Iran, not Russia for gas supplies, and is taking that into consideration during the current negotiations. End Summary.

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CURRENT PIPELINE PROJECT IS AN INCOMPLETE SOLUTION  
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2. (C) The current gas pipeline under construction (ref A) will extend only 42 kilometers into Armenian territory, to the town of Kajaran, where it will join Armenia's existing gas network. Although the new Iran - Armenia pipeline will have a diameter of 0.72 meters, the existing Armenian infrastructure after Kajaran includes segments only 0.5 meters and 0.3 meters in diameter. If Armenia is to rely on Iran as an alternative source of gas, it must replace segments of the existing network with larger pipeline to bring the full capacity of natural gas to Armenia's thermal plants in and around Yerevan. This project, according to Galstyan, would cost USD 100 million.

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BOTH IRAN, RUSSIA, WANT ROLE IN PIPELINE  
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3. (C) Galstyan told us that GOAM officials are quietly negotiating with both Iranian and Russian officials over the extension of the Iran-Armenia pipeline. Russian state-owned Gazprom, said Galstyan, is proposing a deal whereby they would finance, but then own fifty percent of the pipeline and maintain physical and operational control of it, a solution that the Ministry doesn't like on economic or political grounds. The Minister and Galstyan have told us on prior occasions that significant Russian control of the pipeline would somewhat defeat its primary purpose of reducing dependence on Russia. Galstyan added, however, that Russian authorities are linking the gas pipeline deal to other deals that Armenia's Ministry of Energy wants to secure in the sector, specifically involving the construction of new thermal generation on the site of Hrazdan thermal plant, currently owned and operated by Russian RAO-UES. (Note: This plant would have to share basic infrastructure with existing units operated by RAO-UES. End Note.)

4. (C) For its part, Iran is offering to finance the construction of the pipeline by an Iranian contractor. Armenia would have to pay Iran back over time but will keep control and ownership of the pipeline. Galstyan suggested that, although the Ministry would in many ways prefer Iranian financing for the pipeline, they are holding off further negotiations until after Iranian elections, on the theory that their counterparts on the Iranian side may change.

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LARGE-SCALE TRANSIT OF IRANIAN GAS RULED OUT  
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5. (C) Asked about transiting Iranian gas, Galstyan told us that Iran has never approached Armenian with such a proposal, although he has heard about such ideas "from the press from the Ukraine and Georgia." He reiterated the Ministry's

previous statements that the current gas pipeline under construction had too small a diameter (as a direct result of Russian pressure - ref B) to efficiently serve large onward markets. Speaking of smaller onward sales to Georgia, he said that, once built, the Iran-Armenia pipeline would give Armenia the infrastructure to supply Georgia with gas, although Georgia has not made a serious overture in this respect. He said he believed the Georgians were seeking a gas pipeline to Iran, but hinted that they prefer a route through Azerbaijan relying on existing infrastructure.

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ARMENIA IS BUYING CHOICE  
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16. (C) For the long term, Galstyan heavily implied that within three-to-five years he expects Armenia to move away from Russian supplies of gas in favor of Iranian sources. He cited several threats to Armenia's current gas supply via the Valdikavkaz pipeline from Russian via Georgia, including long-standing concerns about the pipeline's physical security and deferred maintenance. The Ministry also fears that Georgia's efforts to find alternative sources of gas (including the soon-to-open gas pipeline from Baku) could make the current Valdikavkaz line uneconomical for serving Armenia alone, that the relationship between Russia and Georgia could deteriorate and Russia could decide to cut supplies to Georgia (and thus to Armenia), and that Russia could cease to give Armenia a preferential rate on gas as part of its WTO accession. While there is not enough domestic demand to run both pipelines to Armenia, Galstyan said that a second pipeline will give Armenia security against possible threats to the Russian line, and the power to choose its source.

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COMMENT: TRADING DEPENDENCIES?  
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17. (C) Having lobbied hard to constrain the size of the Iran-Armenia pipeline, Gazprom now wants control over the northern segment of the pipeline, and will probably leverage other energy deals to get it. Nevertheless, if Armenia fails to keep Russia out of the pipeline, Russian ownership of a second pipeline through Armenia is still more secure than sole reliance on the Russian pipeline through Chechnya and Georgia. Armenia faces a more complicated choice in the future if both pipelines are operational at the same time. Ministry officials admit that without domestic need for gas from both Iran and Russia, and with its aging thermal generation capacity deteriorating and inefficient, Armenia has little use for two pipelines. It is hard to imagine Armenia refusing Russian gas (especially if it is subsidized) for fear of losing the option in the long-term. On the other hand, can Armenia not take gas through the pipeline that it has just built at significant expense and with international development financing? Officially, the Ministry intends to import Iranian gas to its currently idle and inefficient thermal plants and re-export the excess electricity to Iran. More candidly, Galstyan admitted, "It is a good question. It may be that Armenia is exchanging dependence on one single source for dependence on another."

EVANS